

Message Text

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AMEMBASSY TEHRAN

C O N F I D E N T I A L CAIRO 5568

EXDIS

FROM GERLACH

FOR UNDERSECRETARY ROBINSON

SUMMARY: IBRD AND GOE HAVE REACHED AGREEMENT IN PRINCIPLE ON SERIES OF STEPS LATTER WILL TAKE TO IMPROVE MANAGEMENT OF ECONOMY IN GENERAL AND FOREIGN EXCHANGE RESOURCES IN PARTICULAR. PROGRAM, TO BE LAID OUT IN GENERAL TERMS IN LETTER TO MCNAMARA FROM PRIMIN SALIM (SEPTEL), WHICH WAS DRAFTED BY BANK, COVERS MAJOR AREAS OF CONCERN TO POTENTIAL DONORS. WHILE BANK AND EMBASSY RECOGNIZE POTENTIAL FOR SLIPPAGE BETWEEN WRITTEN STATEMENTS AND ACTUAL IMPLEMENTATION, ESTABLISHMENT OF CALENDAR AND MECHANISM BY BANK, AS WELL AS PERIODIC REVIEW, INCREASES LIKELIHOOD OF FOLLOW-THROUGH. END SUMMARY

1. IBRD VP FOR MIDDLE EAST BEN JENK CALLED ON AMBASSADOR JUNE 4 TO REPORT ON RESULTS OF HIS DISCUSSIONS WITH GOE CONCERNING STEPS TO MEET CURRENT ECONOMIC CRISIS. OFFICIALS WITH WHOM HE SOPKE (MINISTERS OF PLANNING, NATURE OF PROBLEMS AND WERE RECEPTIVE TO IDEA THAT BANK ASSIST IN PUTTING TOGETHER SUGGESTIONS FOR OVERCOMING THEM. PRIMIN SALIM, IN PARTICULAR, STRESSED NEED FOR "STRAIGHTENING OUT THE MESS", A REFLECTION, BEN JENK THINKS, OF EARLIER
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MEETINGS WITH UNDER SECRETARY ROBINSON.

2. BANK HAS THEREFORE DRAFTED A LETTER FROM PRIMIN TO PRES MCNAMARA WHICH LAYS OUT STEPS THAT GOE INTENDS TO TAKE OVER COMING MONTHS IN ORDER TO COPE WITH SITUATION. (TEXT OF LETTER IS BEING SENT BY SEPTEL). IT HAS BEEN CLEARED BY MINISTERS MENTIONED ABOVE AND PRESENTED TO ALIM. WHILE MINOR CHANGES MAY BE MADE IN THE TEXT PRIOR TO SIGNATURE, BEN JENK EXPECTS THAT IT WILL REMAIN LARGELY AS PRESENTLY WRITTEN.

3. PRINCIPLE POINTS IN LETTER ARE AS FOLLOWS:

A. CREATION, AT BANK'S SPECIFIC REQUEST, OF MACHINERY TO IMPROVE INTER-MINISTERIAL FLOW OF INFORMATION. KEY INGREDIENT WILL BE ESTABLISHMENT OF A SECRETARIAT ATTACHED TO PRIMIN'S OFFICE, SUPREME COMMITTEE FOR ECONOMIC AND POLITICAL PLANNING (SCEPP), HEADED BY INDIVIDUAL APPOINTED BY PRIMIN, WITH RESPONSIBILITY FOR INSURING THAT APPROPRIATE BRIEFING MATERIALS ARE AVAILABLE SO THAT MEMBERS CAN MAKE RATIONAL CHOICES AMONG CONFLICTING POSITIONS. MINPLANNING WILL ALSO MADE BI-WEEKLY REPORTS ON IMPLEMENTATION OF POLICY MEASURES TO SCEEP.

B. IMPROVEMENTS IN PROCEDURES FOR FORMULATING AND MANAGING FOREIGN EXCHANGE BUDGET.

C. NET LIABILITY ON BANK FACILITIES WILL NOT BE INCREASED. NEW FACILITIES WILL BE EQUAL TO REPAYMENTS.

D. ESTABLISHMENT OF EXTERNAL DEBT MANAGEMENT UNIT.

E. REVISION OF PARALLET MARKET EXCHANGE RATE, PERIODICALLY, TO STRENGTHEN THAT MARKET, AND WIDENING OF IMPORTS UNDER PARALLET AND "OWN EXCHANGE" PROGRAMS TO INCLUDE 20 PERCENT OF IMPORTS BY END 1975 (VICE 10 PERCENT AT PRESENT), AND ALL IMPORTS EXCEPT BASIC COMMODITIES BY END 1977 (ROUGHLY 60 PERCENT OF TOTAL IMPORTS).

F. CLARIFICATION OF AMBIGUITY OF EXCHANGE RATES IN INVESTMENT LAW.

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G. ESTABLISHMENT OF UNIFIED INCOME TAX LAW, SIMPLIFIED CUSTOMS AND TAX LAWS.

H. DECENTRALIZATION OF OPERATIONS IN PUBLIC SECTOR, GRADUAL CLOSING OF ENTERPRISES THAT ARE NOT ECONOMIC.

I. STRENGTHENING ROLE OF CENTRAL BANK, AND LIMITING GOE BORROWINGS FROM IT.

J. EXAMINATION OF SUBSIDY PROGRAM TO MAKE IT MORE SELECTIVE AND POSSIBLY SMALLER.

K. ADDITION OF INFORMAL REVIEWS BY IBRD, "TWO OR THREE TIMES PER YEAR", OF ECONOMIC SITUATION.

4. COMMENT: BEN JENK IS CLEARLY NOT OVERLY OPTIMISTIC ABOUT WILLINGNESS AND ABILITY OF GOE TO CARRY OUT ABOVE UNDERTAKINGS, AN OPINION SHARED BY EMBASSY, AND RECOGNIZES ELEMENTS OF LIP SERVICE DESIGNED TO FACILITATE RECEIPT BY EGYPT OF FUNDS ASSUMED TO BE WAITING ONLY FOR DISPATCH OF LETTER. SIMILARITY OF LANGUAGE IN THIS LETTER TO THOSE PREVIOUSLY SENT TO BANK AND FUND (TO LATTER IN CONNECTION WITH FIRST CREDIT TRANCHE LAST FALL) HAVE ALSO NOT BEEN OVERLOOKED. DIFFERENCE THIS TIME, HE STRESSED, IS THAT STEPS ARE BEING TAKEN TO OVERSEE IMPLEMENTATION OF ITEM A, ABOVE, WHICH BANK INSISTED UPON AND EVIDENTLY CONSIDERS OF PRIME SIGNIFICANCE.

5. DUBY AND IKRAM OF BANK MISSION WILL STAY ON IN CAIRO FOR TWO WEEKS, "AT DISPOSITION OF GOE", TO SET UP CALENDER AND MECHANISMS FOR THE NEW SECRETARIAT AND RELATED STEPS. BEN JENK IS OF OPINION THAT THIS TOO IS OF CONSIDERABLE IMPORTANCE IN INSURING THAT GOE WILL ACCOMPLISH AT LEAST SOME OF THE OBJECTIVES LISTED IN LETTER SINCE, IF IBRD REPS PROPERLY UTILIZED (A BIG IF), THEY CAN HELP TO MOVE EGYPTIANS FROM GENERAL TO SPECIFIC MEANS OF IMPLEMENTATION.

6. WHO IN GOE WILL OVERSEE AND CARRY THROUGH ON PROGRAMS IS KEY QUESTION REMAINING UNANSWERED. BANK SEES SECRETARIAT AS FIRST STEP IN SETTING UP MECHANISMS FOR MORE EFFECTIVE COORDINATION, IF PROPER PERSON(S) CAN BE FOUND TO RUN IT. MORE
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ACTIVE ROLE OF PRIMIN IN DECIDING ON OPTIONS PRESENTED TO HIM BY HIS MINISTERS REMAINS A NECESSITY, AND SALIM IS SHOWING SOME ENCOURAGING TENDENCIES IN THIS DIRECTION. HE MADE ONLY STATEMENT WE HAVE SEEN IN RECENT TIMES ON THE NEED FOR AUSTERITY AND BETTER USE OF DOMESTIC CAPABILITIES AND RESOURCES AS A MEANS OF REDUCING NEED FOR HELP FROM ABROAD IN DEVELOPING ECONOMY.)
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